

**Valuation Summary**

- We are of the view that Liberty Holdings stock is a “Sell” with a target price of Kshs 13.0 per share, representing a downside of 6.6%, from the current price of Kshs 13.9 per share, as at 1<sup>st</sup> September 2017.
- Liberty is currently trading at a P/TBV of 1.2x and a P/E of 11.6x, compared to an industry average of 1.4x and 9.7x, respectively,

**Key Highlights – H1'2017**

- Liberty Life Assurance partnered with Kenya Women Micro Finance Bank (KWFT) to roll out a Last Respect Benefit Cover dubbed, KWFT Maisha Plus. The cover will be offered by KWFT at a rate of Kshs 75.0 per month and will see their customer’s beneficiary receive Kshs 100,000 upon the customer’s demise.

**Income Statement**

- Core earnings per share (EPS) increased by 18.9% coming in at Kshs 0.79, from Kshs 0.66 in H1'2016, attributed to a 7.1% growth in total income to Kshs 5.0 bn from Kshs 4.7 bn in H1'2016 despite a 6.7% growth in total expenses and commissions to Kshs 4.5 bn from Kshs 4.2 in H1'2016,
- The 7.2% rise in total income was driven by a 2.5% growth in gross earned premium to Kshs 4.9 bn from Kshs 4.8 bn in H1'2016 and a 23.9% increase in commissions earned to Kshs 0.5 bn from Kshs 0.4 bn in H1'2016,
- Investment income rose by 16.1% to Kshs 1.7 bn from Kshs 1.5 bn in H1'2016, supported by the performance of their equities portfolio following the price rally at the Nairobi Securities Exchange (NSE),
- The 6.7% growth in total expenses is attributable to a 9.0% rise in net insurance benefits and claims to Kshs 2.3 bn from Kshs 2.1 bn in H1'2016,
- The loss ratio worsened to 83.4% from 74.9%, while the expense ratio worsened to 44.9% from 42.9% in H1'2016, owing to a faster increase in operating expenses as compared to net premiums. The combined ratio thus worsened to 107.2% from 93.9%,
- Profit before tax (PBT) increased by 11.6% to Kshs 0.55 bn from Kshs 0.49 bn in H1'2016, while profit after tax (PAT) improved by 18.9% to Kshs 0.42 bn from Kshs 0.36 bn in H1'2016.
- The Board of Directors did not recommend an interim dividend, same as in H1'2016.

**Balance Sheet:**

- Total assets grew by 4.2% to Kshs 36.6 bn from Kshs 35.1 bn in H1'2016, driven by an 1.3% growth in financial investments assets to Kshs 23.3 bn from Kshs 22.9 bn in H1'2016 and an 18.2% growth in intangible assets to Kshs 0.11 bn from Kshs 0.08 bn in H1'2016,
- Total liabilities grew marginally by 3.2% to Kshs 29.6 bn from Kshs 28.7 bn in H1'2016, driven by a 12.3% rise in insurance contract liabilities to Kshs 13.1 bn from Kshs 11.6 bn in H1'2016. Payables under deposit administration contracts however declined by 7.5% to Kshs 10.2 bn from Kshs 11.1 bn in H1'2016,
- Shareholders’ funds grew by 9.0% to Kshs 7.0 bn from Kshs 6.5 bn in H1'2016, against our expectations of a 13.5% growth,
- Jubilee Holdings currently has a ROaA of 1.2% and a ROaE of 6.3%, compared to 1.0% and 5.5%, respectively, recorded in H1'2016, against an industry average of 3.3% and 10.9% in H1'2017 compared to an average of 3.0% and 9.0% in H1'2016, for return on average assets and return on average equity, respectively.

**Key Take Outs:**

- The group’s overall performance was below our expectation, having recorded an 18.9% growth in earnings against our expectation of a 59.7% growth. However, Liberty’s growth in total income which came in at 7.2% was within our expectation g of 7.1%

- The group's Tanzania business faced a challenging beginning of the year attributed to tough operating environment and competition. Going forward, Liberty's growth will be driven by: (i) new and growing market segments such as provision of maritime insurance, (ii) continued product development, pricing efficiency and adaptability to the evolving market trends, and (iii) expansion into new regions that will drive growth, e.g. DRC,

Below is a summary of the key line items in the balance sheet and income statement.

*Figures in Kshs billions unless otherwise stated*

Balance Sheet	H1'2016	H1'2017	y/y change	H1'2017E	Project y/y change	Variance in growth vs projection
Investment Assets	24.0	24.1	0.5%	26.4	10.1%	(9.6%)
Total Assets	35.1	36.6	4.3%	37.4	6.6%	(2.3%)
Total Liabilities	28.7	29.6	3.2%	30.4	6.0%	(2.8%)
<b>Shareholders' Funds</b>	6.5	7.0	9.0%	7.3	13.5%	(4.5%)

Income Statement	H1'2016	H1'2017	y/y change	H1'2017E	Projected y/y change	Variance in growth vs projection
Gross earned premiums	4.8	4.9	2.5%	5.2	8.0%	(5.5%)
Net earned premiums	2.8	2.8	-2.2%	3.0	8.0%	(10.2%)
Investment Income	1.5	1.7	16.1%	1.5	0.8%	15.3%
Total income	4.7	5.0	7.2%	5.0	7.1%	0.1%
Net claims and benefits	2.1	2.3	9.0%	2.1	0.9%	8.1%
Total expenses	2.1	2.2	4.3%	2.2	3.7%	0.6%
Profit before tax	0.5	0.5	11.6%	0.7	48.5%	(36.9%)
<b>Profit after tax</b>	<b>0.4</b>	<b>0.4</b>	<b>18.9%</b>	<b>0.6</b>	<b>59.7%</b>	<b>(40.9%)</b>
<b>Core EPS</b>	<b>0.7</b>	<b>0.8</b>	<b>18.9%</b>	<b>1.1</b>	<b>59.7%</b>	<b>(40.9%)</b>

Ratios	H1'2016	H1'2017
Loss Ratio	74.9%	83.4%
Expense Ratio	74.7%	79.6%
Combined Ratio	149.6%	163.0%
ROaE	5.5%	6.3%
ROaA	1.0%	1.2%